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TODAY

AUTO MAKERS: Flush with cash, Detroit's Big Three are funneling much of their excess wealth into financial services ventures, but the giant auto makers will have to adjust their internal cultures to meet the challenges of the new businesses. The first part of an *American Banker* special report begins on page..... 1

NEW MAN AT SAN FRANCISCO FED: Robert T. Parry, an economist who this week was selected to become president and chief executive officer of the Federal Reserve Bank of San Francisco on Feb. 1, is a firm believer in what he calls "conditional forecasting."..... 2

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Quote

It seems to me that if management is relying on economists solely on their ability to predict the future, there's going to be trouble.

Robert T. Parry, who will become president and chief executive officer of the Federal Reserve Bank of San Francisco on Feb. 1. [2]

Unquote

AN AMERICAN BANKER SPECIAL REPORT

Auto Makers Veer into Financial Services Traffic

The Big Three Funnel Wealth Into Acquisitions in an Effort To Avoid Replay of Early '80s

By ROBERT M. GARSSON
First in a Series

DETROIT — In the grim, early years of the 1980s, it seemed that the U.S. auto industry had all it could do to survive. Amid the plant closings and the layoffs and the gushing streams of red ink, America's once proud auto makers were reduced to pleading with Washington for protection against Japan.

Shifting Gears



Detroit Moves into Financial Services

Those days are gone but not forgotten. Today, America's Big Three auto makers — General Motors Corp., Ford Motor Co., and Chrysler Corp. — are richer and more powerful than ever, and they are lavishing their new-found wealth on acquisitions in a determined effort to maintain their global preeminence through good times and bad.

Prominent among their targets is financial services, and they are buying their way in with all of the gusto of an industry that has long been accustomed, as one analyst puts it, to "eating money for breakfast."

Already, the Big Three have have spent about \$1.5 billion on financial services companies, picking up a consumer finance business, an equipment leasing firm, two mortgage servicing operations, and even a savings and loan. Still more will be spent to start some financial businesses from scratch.

And Detroit's buying spree has a few

In Financial Services, the Auto Companies Run in High Gear

	Banks (\$10 billion)	GMAC	Ford Credit	Chrysler Financial
Return on Equity	12.92	18.8	14.9	8.4
Return on Assets	6.3	1.4	1.3	1.2
Equity/Assets	5.24	7.3	8.7	13.9
Reserve/Loans	1.49	.93	1.3	.73

All data for Dec. 31, 1984

Sources: Cater Consulting Analysts and annual reports

more miles to run.

"The sky is the limit," said Scott Merlis, an auto analyst for Morgan, Stanley & Co. "Chrysler has \$3.7 billion available, Ford has \$5 billion, and GM has \$5 billion. That's cold, hard cash."

For banks and other lenders, the entry of Motor City into financial services is a cold, hard fact of life that promises to change the way U.S. consumers and businesses borrow, save, and manage their money.

General Motors Acceptance Corp., for example, already has bought two large mortgage-servicing companies, and its president, Robert F. Murphy, promises that the company will continue to expand in financial services through additional acquisitions, start-ups, and an expansion of some products that GMAC already offers.

From his office in the imposing GM headquarters building on West Grand Boulevard here, Mr. Murphy talked about the possibility of expanding the distribution of GMAC's money market

fund. It is being offered to GM's 800,000 employees, and Mr. Murphy, who is scheduled to become chairman of GMAC on Jan. 1, said he sees no reason why it cannot be offered to the 6.5 million customers of GMAC as well.

"It would be a money market fund with draft and checking privileges, and we could do direct deposit of payroll," he said. Effectively, then, it could be a checking account offered nationwide.

"And if we can offer a money fund," added Mr. Murphy, "then we can offer a mortgage. Our insurance company can offer life insurance, homeowner insurance, and I think we will look at the mortgage insurance market."

GMAC is even testing a credit card, though Mr. Murphy admits to harboring doubts that consumers need or want another piece of plastic in their wallets.

But he said he has no uncertainties about GMAC's ability to lend to the corporate middle market.

"If we can grant loans to a medium-

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"There is nothing sinister in so arranging one's affairs to keep taxes as low as possible. Everybody does so, rich and poor; and all do right, for nobody owes any public duty to pay more than the law demands: taxes are enforced exactions, not voluntary contributions. To demand more in the name of morals is mere cant."

Judge Learned Hand

NUVEEN

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Indianapolis: Reaching New Heights



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American Fletcher, the leader in banking and financial services, is proud to be a part of the city's growing progress.

AMERICAN FLETCHER
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Hancock Unit to Acquire Sutro Group in California

Special to the American Banker

BOSTON — The John Hancock Mutual Life Insurance Co.'s securities brokerage subsidiary, Tucker Anthony & R.L. Day Inc., has reached an agreement in principal to acquire the Sutro Group and its subsidiary Sutro & Co., the oldest independent brokerage firm on the West Coast.

The deal is subject to approval by the board of directors of Boston-based John Hancock and stockholders of San Francisco-based Sutro. The life insurance company acquired New York-based Tucker Anthony, a regional brokerage firm in the Northeast, in 1982. Since that time, the brokerage firm has been on the expansion path and has opened offices in Chicago, Dallas, Minneapolis, Boca Raton, and Tucson. The firm now has 36 offices and 12,000 employees.

W. Ward Carey, chairman and chief executive officer of Tucker Anthony, said, the acquisition of Sutro fits in with the company's coast-to-coast expansion plans. "It mirrors Tucker Anthony on the West Coast and provides John Hancock with excellent representation in both areas."

Ross Cobb, chairman of the Sutro Group, said there will be no changes in the Sutro operation over the near-term and both firms will remain independent. However, he said, as time passes research, trading, and corporate finance services may be shared by both firms.

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Washington Networks Announce Merger Plan

Special to the American Banker

SEATTLE — Automated teller machine cards issued by almost every bank in Washington eventually will be able to access virtually every ATM in the state under an agreement announced here last week.

Members of the Northwest Electronic Network, or NEN, and of the Exchange System have approved an agreement which will merge the two entities over a three-year period.

NEN was formed by the First Interstate Bank of Washington, Old National Bank, Peoples National Bank, Rainier National Bank, and Seattle-First National Bank to develop a shared ATM and point-of-sale network. The Exchange operates an ATM system throughout the Pacific Northwest for many other financial institutions.

"This merger puts the Northwest in the forefront of regions developing similar shared systems," said Thomas M. Bass, president of the Exchange. "This unified approach gives all financial institutions an opportunity to offer cost-effective ATM and point-of-sale services to their customers."

Initially, both the Exchange and NEN will continue to operate separate networks. But the switch-processing capabilities of the Exchange will be transferred to a new entity, Northwest Switching System, which will jointly service both NEN and the Exchange.

Three New Directors For Union Planters

Special to the American Banker

MEMPHIS — Union Planters Corp. and Union Planters National Bank have three new directors, and the bank has a new general counsel.

R. Brad Martin and Robert F. Fogelman, both of Memphis, and Hanford "Hank" Farrell Jr. of Fort Smith Arkansas are the new board members.

Mr. Martin is president of R.B.M. Venture Co., a real estate investment firm. He also is a former five-term member of the Tennessee House of Representatives.

Mr. Fogelman is president of the Fogelman Investment Co. of Memphis.

Mr. Farrel is chairman of Farrell-Copper Mining Co., a firm that produces coal in Oklahoma and Texas.

Fed . . .

Continued from Page 3

In the lengthy Justice Department letter, written on behalf of the departments of Treasury, Commerce, and Labor, the Council of Economic Advisers, and the Office of Management and Budget, Mr. Ginsburg said the administration has "serious legal and policy reservations" about the Fed proposal.

Mr. Ginsburg's legal reservation concerns the short comment period allowed for the rule, and observers say that would be a thin foundation for a lawsuit.

About 80 comments were received in the abbreviated comment period. While that is a substantial number, some Fed proposals have prompted more than 1,000 replies.

Texaco . . .

Continued from Page 2

tional Bank, the Bank of New York, Commerzbank Aktiengesellschaft, Credit Suisse, First City National Bank of Houston, Interfirst Bank Dallas, SwissBank Corp., Texas Commerce Bank, and Union Bank of Switzerland.

AN AMERICAN BANKER SPECIAL REPORT

Financial Services Ventures to Cause Auto Makers to Adjust Their Sights

Continued from Page 1

size business like an auto dealership, we can do it in other areas," he said. GMAC also is mulling the possibility of offering cash management services to its dealers and other businesses.

Whatever fields GMAC chooses to enter, it has the cash to go in style, as it demonstrated with its purchase of Northwest Corp.'s Norwest Mortgages and Corestates Financial Corp.'s Colonial group of mortgage servicing companies. Those two acquisitions, for an estimated \$400 million, brought GMAC from ground zero to number two in the industry in less than a month.

Chrysler Financial Corp., the lending arm of Chrysler Corp., has also begun a rapid-fire expansion of its financial services business. Free at last from the shackles of government oversight that were part of its 1980 bailout, it purchased E.F. Hutton Credit Co. for \$125 million on Aug. 31. On Nov. 22, it plunked down \$450 million for BankAmerica Corp.'s FinanceAmerica units.

Not to be left out, Ford Motor Co. agreed to pay \$493 million for First Nationwide Financial Corp., the nation's ninth largest savings and loan holding company. That deal was completed Dec. 16.

Expanding into Areas of Expertise

In their expansion, the three say they believe that they are capitalizing on two existing areas of expertise: consumer lending and middle-market corporate lending.

Through their finance subsidiaries, each has sizable retail lending portfolios, ranging from \$8.7 billion at Chrysler to \$54 billion at GMAC, as of Sept. 30. Wholesale loans run from a low of \$2.6 billion at Chrysler to \$14 billion at GMAC.

And the nature of auto lending itself, they say, gives rise to opportunities in other fields, chief among them the huge mortgage market.

"There's an affinity between auto finance and the finance of housing," said James W. Ford, chairman of Ford Motor Credit Co., "so we saw that as a natural extension."

The affinity Mr. Ford has in mind relates primarily to the size of the loan being made. "It's natural for us because of the larger balances," he said. "You qualify people on almost the same basis."

"A car and a house are the two major consumer purchases," added Robert Baker, vice chairman of Chrysler Financial Corp. "You pay for each a month at a time."

The opportunities in mortgage lending are huge, bigger even than those of the auto industry.

"It's the biggest market on the globe, a \$2.5 trillion market worldwide," said an enthusiastic Jonathan Gray, thrift analyst for Sanford C. Bernstein & Co.

What drives the auto industry in its race down the acquisition trail is part opportunity — they have more cash than they can spend — and part strategy: They are determined not to be caught defenseless the next time the economy changes direction.

"Even with all the capital spending plans they have in the hopper, they can't spend all that cash," said Joseph Phillippi, E.F. Hutton Group Inc.'s auto industry analyst.

But more important, he added, "they want to balance out their portfolio."

Dealing with Maturity

Auto manufacturing has grown into a mature industry, Mr. Phillippi noted, and the established American companies are likely to begin losing domestic market share as competition intensifies from Korea, Yugoslavia, and elsewhere. Many of those countries will be low-cost producers, and the U.S. companies may well be forced to sacrifice margins to maintain volume.

For example, Howard Leonard, an auto industry analyst for PNC Financial Corp., projects that GM's worldwide auto sales will fall 17.8% by 1988.

"Both the more competitive nature of the market in 1988 and GM's higher fixed costs should cause the company's operating margin to nearly vanish," he warned.

As a result, Mr. Merlis said he expects the three to continue to direct a significant portion of their diversification efforts toward the financial services industry.

"They want to acquire finance companies, because they are less vulnerable to foreign competition," he explained.

The three are also intent on escaping the boom-or-bust environment of the auto industry. Financial services is an area in which they have long years of experience, and which remains profitable even during the downswings of the business cycle, when assembly lines begin to shut down.

For the nation's financial services providers, especially for the heavily regulated banks and savings institutions, the advance of the Big Three into new markets could foretell difficult times ahead.

"They are strong, powerful and tough," said Gary Wendt, executive vice president of General Electric Credit Corp., perhaps the best respected of the nation's wholesale finance companies. "They will be fierce competitors."

G.E. Credit probably will continue to prosper, but Kenneth Guenther, executive director of the Independent Bankers Association of America, is not so sure that his members will fare as well.

Once GMAC is fully armed with a

➔ Auto Makers: Page 12

2 Miami Banking Companies Agree in Principle to Merge

MIAMI — Two Miami bank holding companies announced last week that they have agreed in principle to merge their companies.

Popular Bancshares Corp., a \$351 million-asset holding company for the 11-office Bank of Miami, and Intercontinental Bank Holding Co., which operates the 13-office Intercontinental Bank, said they plan to combine operations. Intercontinental has \$606 million in assets.

Popular senior vice president Joanne Brown said the talks are "very prelimi-

nary" and added that no specifics, such as exchange ratios, have been resolved.

However, she did say she would expect Popular to be the "surviving company."

Ms. Brown said she could not comment on the reasons for the proposed merger, but industry officials indicated it would form a nearly \$1 billion Miami-based corporation. That, they said, could make it an attractive takeover target for out-of-state bank holding companies seeking a South Florida presence.

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Financial Services Industry Is Magnet for Auto Makers' Cash

Continued from Page 11

complete package of financial services. "It will be difficult for any bank to compete," said Mr. Guenther, whose trade group represents many of the nation's small banks.

Among the nation's big banks, all of which have their own ambitious plans for expansion and diversification, a different attitude emerges.

"Obviously, we don't hope for any more competition," said Anthony P. Terracciano, vice chairman and global banking executive of Chase Manhattan Bank. "But I don't stay awake at night worrying about it."

In the long run, he added, "There's enough business out there for all of us."

Mr. Wendt of G.E. Credit disagreed. "The world is overbanked at this point," he argues. "There are more suppliers of funds than there is demand."

If the auto companies' diversification plans mean stiff competition for all financial services companies, it also promises especially difficult times for the nation's banks, which are forced to maneuver in a regulated environment.

Shifting Gears



Detroit Moves into Financial Services

follows the banking industry for Smith, Barney, Harris, Upham & Co. It also will be unfair competition, he added.

"A lot of it will take place by acquisition, and once again banks will suffer because they have to sit and wait for 90 days for federal approvals, as opposed to car makers that can move overnight," he contended.

But the auto makers and their financial subsidiaries may find some bumpy roads ahead of them in financial services.

"The jury is still out on whether they will be successful," said Mr. Albertson of Smith Barney.

"One temptation of a financial company that has been operating as a captive finance subsidiary is to assume that the business can be directed powerfully by coercing the company's distribution system," he said.

"When you go out of captive system, it may prove to be difficult," he continues, adding that the finance units could easily find themselves in a world they do not understand.

Culture Modification

Just as important, each of the three must modify their own internal culture if they are to move from the clearly defined and well-bounded world of auto lending into less familiar territories.

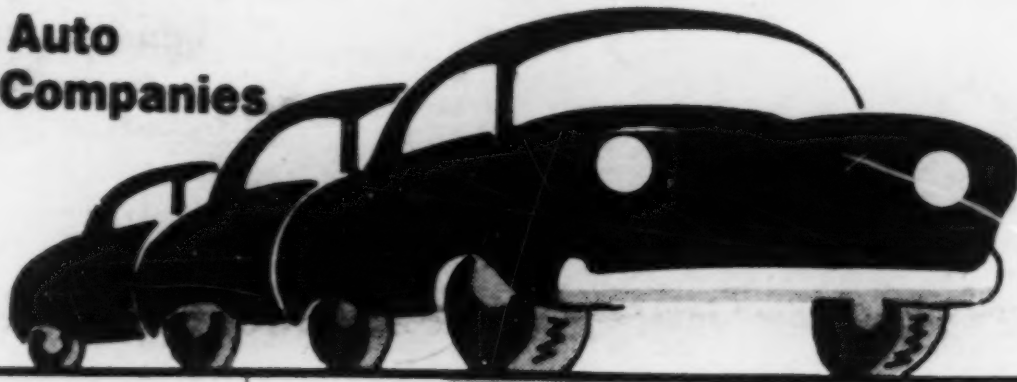
"That's not easy to do," admits Mr. Murphy of GMAC. "We were risk-averse before, and today we are telling people to be market-driven."

One way of dealing with the culture problem is to locate new ventures as far from Detroit as possible, as Ford Motor Credit Co. did in starting up Ford Equipment Leasing Co. in Newport Beach, Calif.

An outsider, Donald Rennie, former president of Avco Financial Services Leasing Co., was hired to run the new business, and Ford Credit's chairman, Mr. Ford, said the California location was chosen to insulate the leasing business from Ford's sometimes stifling bureaucracy.

"We think we can do it [run a leasing company] economically on a separate

How the Auto Finance Companies Grew



FORD			GMAC			CHRYSLER		
	Assets (Billions)	Income (Millions)		Assets (Billions)	Income (Millions)		Assets (Billions)	Income (Millions)
'84	24.0	310	'84	54.4	784.8	'84	7.2	83.1
'83	19.1	292	'83	51.4	1,002.0	'83	4.3	47.4
'82	16.2	229	'82	44.4	688	'82	3.8	52.2
'81	17.7	186	'81	41.9	365.2	'81	3.8	62.6
'80	16.7	159	'80	33.1	231	'80	4.1	57.0

vehicle basis, whereas we couldn't do it within Ford," said Mr. Ford. "The economics are different. Here, you are sort of bundled into an organization with some inertia. Rennie hires commission people, and we don't have that in our structure."

In its effort to adapt, GMAC is running executives through strategic planning courses and is giving thought to hiring more people from the outside, Mr. Murphy noted.

But he added: "You can't change people overnight. It's like trying to turn the Queen Mary, and we're only halfway there."

For all their resources, the auto companies are also coming to the financial services industry somewhat late, following in the wake not only of banks, thrifts and investment banks, but of such other corporate powerhouses as Sears, Roebuck and Co., General Electric Co., and American Express Co.

And in some of the businesses in which the three are expanding, the rules of the game are on the verge of change, with serious adverse consequences for all participants.

Both Chrysler and, to a lesser extent, Ford, already have spent heavily on equipment leasing, a business that will become much more difficult if Congress repeals the investment tax credit and lengthens depreciation schedules, as it is considering doing.

Earnings Power Is Uncertain

And even if the Big Three are successful in their new ventures, it is by no means certain that the ventures will add measurably to their earning power.

For example, First Nationwide, the Ford acquisition, is one of the nation's largest and best-managed thrifts but earned only \$31 million last year, and that was a record year for the thrift. Ford Credit rang up 10 times that amount, or \$310 million, and Ford Motor Co. earned almost 100 times as much, or \$2.9 billion.

Even if First Nationwide boosts its earnings to \$1 for each \$100 of assets — an ambitious target, though one that some thrift analysts believe is within its reach — the thrift would be contributing no more than \$110 million to Ford at current levels, about 3% of 1984 profits.

"No matter what they do, it will take a long time to balance out the swings you get in the auto business," said Mr. Phillippi, the Hutton analyst.

"Hughes [Hughes Electronics Corp., a new GM subsidiary] will be a \$5 billion company, combined with the Delco division of GM, but GM will do \$90 billion of car and truck sales," he said. "So it will take awhile to balance out that kind of volume."

Arvid Jouppi, a veteran auto analyst who now follows the industry for Roon-ey, Pace & Co., said the acquisitions,

though small by the auto industry's outsized standards, are useful developments nonetheless.

"For one thing, auto finance itself has become rather routine," he said. "They need to challenge their finance people with a broader range of challenges."

First Nationwide, for example, may never pull down the same kind of profit margins as Ford Credit, he said, but the auto finance companies "will get a bigger bang for the employee buck."

"The same kind of brainpower that goes into financial subsidiaries," he added, also "goes into consumer finance."

The finance subsidiaries operated by the three auto manufacturers are big enterprises in and of themselves. GMAC, for example, had assets of \$70 billion at the end of the third quarter, more than all but five banks. It earned \$784 million in 1984 — more than any banking concern, save giant Citicorp — and it is ahead of that pace this year.

Big Parental Role

Earnings comparisons with commercial banks, however, are difficult to interpret because of the role played by the finance unit's parents. Each receives equity contributions from the parent when needed, and each is the beneficiary of the incentive programs offered from time to time.

When incentive financing is offered by GMAC, Ford Credit, or Chrysler Financial, the parent company pays the difference between the incentive rate and market rates. In effect, the parent is buying them a market share.

Still, the three auto finance companies are regarded as stellar performers by securities analysts, and the market soon may have a chance to offer its

judgment as well.

GM has said that it is considering spinning off its finance unit, making some portion of the stock available to the public, and it is thought that Ford and Chrysler are deliberating over similar plans.

"I wouldn't be too surprised to see it," said Charles Brady, an auto analyst for Sanford C. Bernstein & Co. "From the companies' perspective, their stock is undervalued, and one reason is that everything in the company is clumped in together."

Separating out the component parts, he added, "is a way of calling attention to the true gems they have within the company."

If shares of GMAC are offered to the public, Mr. Brady added, they will represent only a minority interest in the company. The first mission of the finance units is to move cars and neither GM, nor Ford, nor Chrysler is likely to do anything that would jeopardize their ability to direct the activities of the three subsidiaries in auto lending.

Meanwhile, the three are spending money on their offspring in ways that are not always obvious. GM's acquisition of Electronic Data Systems Inc., for example, has a great deal to do with the company's vision of a manufacturing future that is heavily reliant on automation.

But EDS brings to GMAC a sophisticated data processing capability that will enable it to offer financial services, such as mortgage servicing, profitably and efficiently. Electronic delivery of financial services is becoming so important, in fact, that a recent Salomon Brothers analysis concluded that only banks for which technology is a priority will be successful in the future.

The auto companies also help out their subsidiaries by pumping in capital, not only to finance the expansion of their auto lending business but also to help with acquisitions. Chrysler's \$405 million purchase of FinanceAmerica, for example, was accompanied by a \$405 million capital infusion from parent Chrysler Corp.

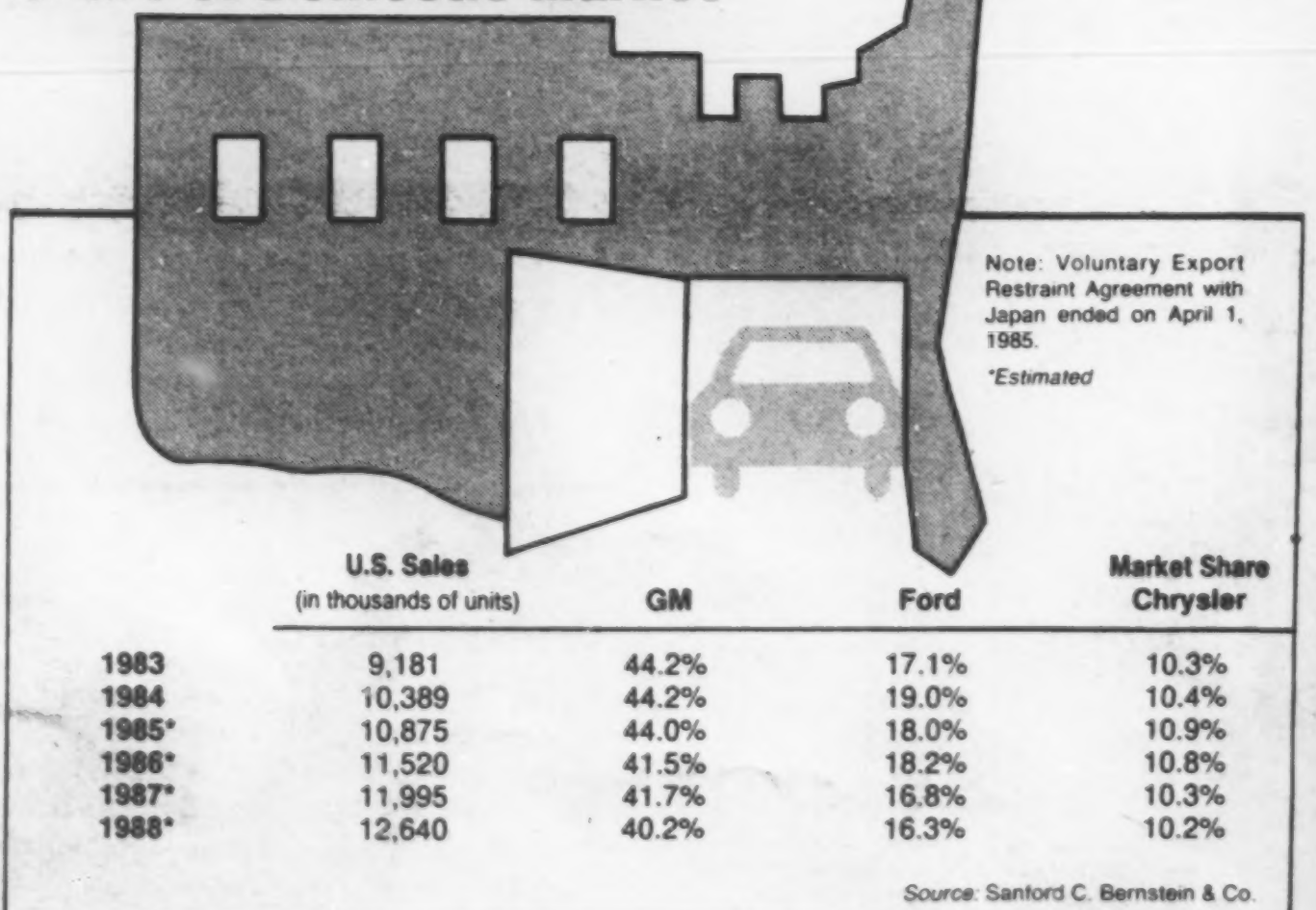
Undoubtedly, deep pockets will smooth out some bumps in the road, as the Big Three move beyond the world of smokestacks and assembly lines, but they are no guarantee of success in financial services or any other sector. It is a fact that all three appreciate.

"Anyone who is in one business successfully thinks they can automatically be successful in another," said Mr. Murphy of GMAC.

And that, he adds, just ain't necessarily so.

Next: A look at General Motors Acceptance Corp.

U.S. Automakers Face Declining Share of Domestic Market



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Regional Deals, Once Impossible, To Be Norm in '86

By BART FRAUST

NEW YORK — Last month, it took the Federal Reserve Board a scant seven pages to approve one of the largest mergers in banking history — the \$16 billion combination of Wachovia Corp. in Winston-Salem, N.C., and First Atlanta Corp. in Atlanta.

For an in-state deal involving large institutions, the Fed might need three or four times that number of pages.

On the one hand, the brevity of the

'85 preview

A Series of Articles Looking Back and Ahead At Issues Facing the Financial Services Industry

Wachovia-First Atlanta decision reflects the limited means available to banking regulators for analyzing the competitive effects of interstate mergers. The Fed's traditional way of gauging the competitive effect of a merger is to look at how the deal will affect competition in markets where the merging banks both operate. In an

An Overview of Interstate Banking, Page 3

terstate deal, the merging banks do not operate in the same local markets.

In addition, the Wachovia-First Atlanta ruling shows just how routine regional interstate mergers have become only seven months after the U.S. Supreme Court affirmed their constitutionality.

On June 10, the Supreme Court ruled, in connection with lawsuits filed by Citicorp and Northeast Bancorp Inc., New Haven, that states could enact laws permitting regional interstate banking.

At present, 24 states and the District of Columbia have enacted regional interstate banking laws, and on the books of another five are laws permitting en-

➔ Regional: Page 20

AN AMERICAN BANKER SPECIAL REPORT

Ford Looks for S&L Synergy

Auto Company Envisions First Nationwide as Reliable Earner

By ROBERT M. GARSSON

Third of a Six-Part Series

DEARBORN, Mich. — The chairman of Ford Motor Credit Co. began to smile and then broke into laughter as he recalled how he told reporters that Ford Motor Co.'s acquisition of a big California thrift could lead to the sale of financial services through kiosks in dealer showrooms.

Shifting Gears



Detroit Moves into Financial Services

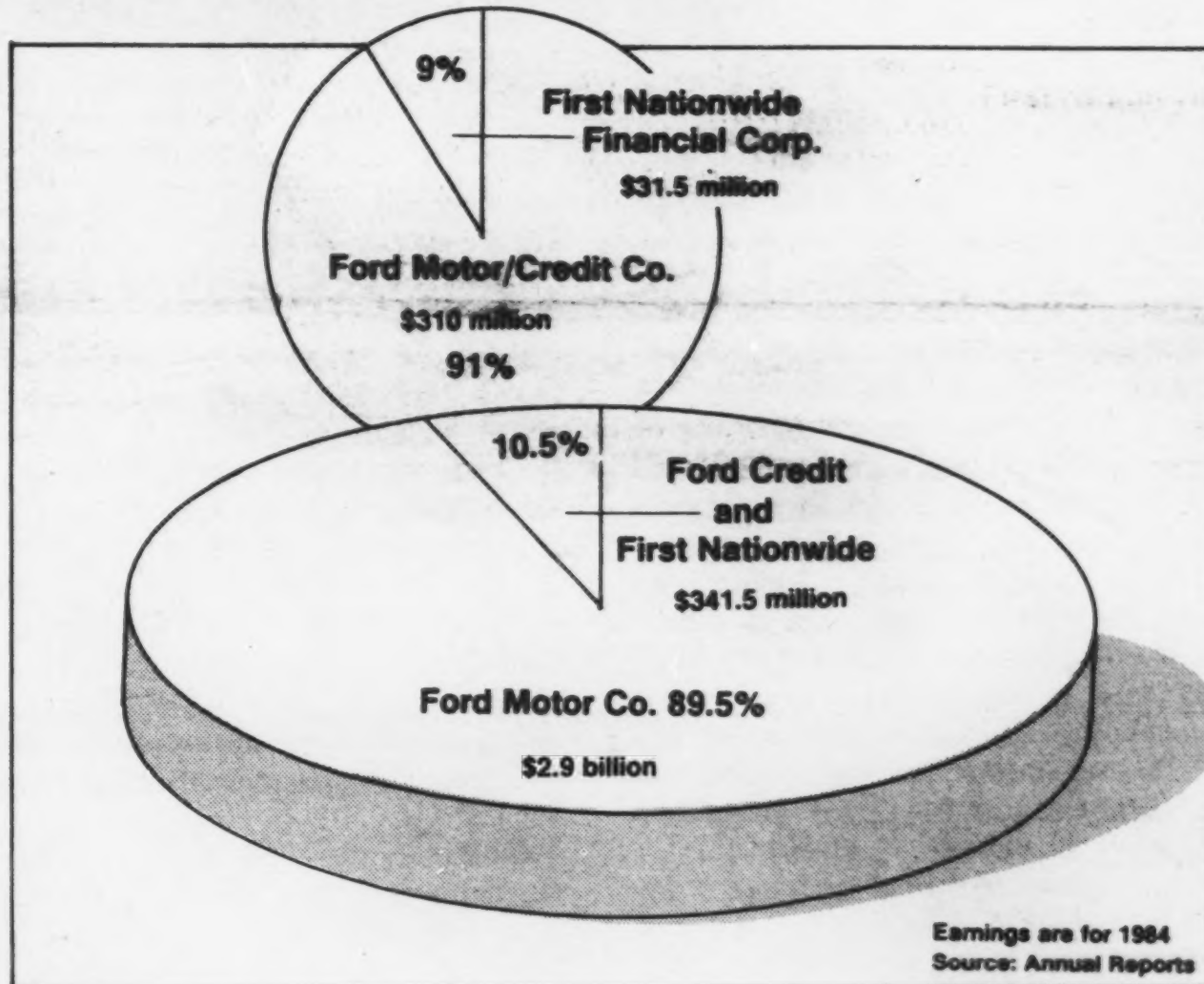
"The people at First Nationwide thought that was the dumbest thing they ever heard of," added James W. Ford, the lean, 63-year-old chairman of the auto finance company. Mr. Ford then conceded with one of his quick, almost impish grins, that he too suspects that the idea is unworkable.

"I don't think dealers want to be involved in financial services," he said.

Mr. Ford had offered the kiosk comment shortly after his parent company announced it had agreed to purchase First Nationwide Financial Corp., owner of First Nationwide Savings, the nation's ninth largest thrift. He had been asked, as was probably inevitable, about synergies between the auto and thrift industries, and he had meant to say only that ki-

➔ Ford: Page 22

Ford: The Impact on Earnings



Earnings are for 1984
Source: Annual Reports

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